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BCSC

ANNUAL REPORT 2001-02

BRITISH COLUMBIA SECURITIES COMMISSION

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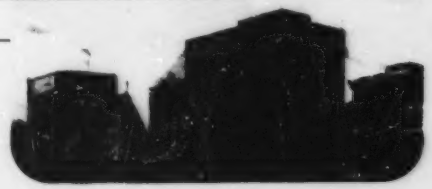


The British Columbia Securities Commission (BCSC) is the independent provincial government agency responsible for regulating trading in securities in the province. Our purpose is to protect investors and ensure capital markets are fair and efficient and to foster a competitive industry that provides access to capital and investment opportunities. We do this by:

+ ensuring investors have access to the information they need to make sound investment decisions
+ setting qualifications and rules for people who advise or trade for investors
+ establishing rules of conduct for those who participate in the market
+ enforcing the rules and standards of the market
+ educating industry and investors

Market participants – not the taxpayer – fund the BCSC. We are accountable to the legislature and the public through the Minister of Competition, Science and Enterprise to whom we submit our annual report and audited financial statements. Under the terms of the *Budget Transparency and Accountability Act*, each year we produce and submit to the provincial government a three-year strategic plan called the Service Plan. This public document, posted on our web site, describes the BCSC's major initiatives and strategies.

No. 1
LEGISLATIVE LIBRARY
VICTORIA, B.C.
JUL 16 2002

OUR STAKEHOLDERS include participants in the market and, indirectly, everyone who has an interest in the economic benefits of a sound and efficient market. Direct stakeholders include:

+ investors – both retail and institutional – who want to invest in fair and efficient capital markets
+ issuers – who rely on capital markets to fund growth and diversification
+ the securities industry – including self-regulatory bodies and the 21,247 people registered to sell securities in BC

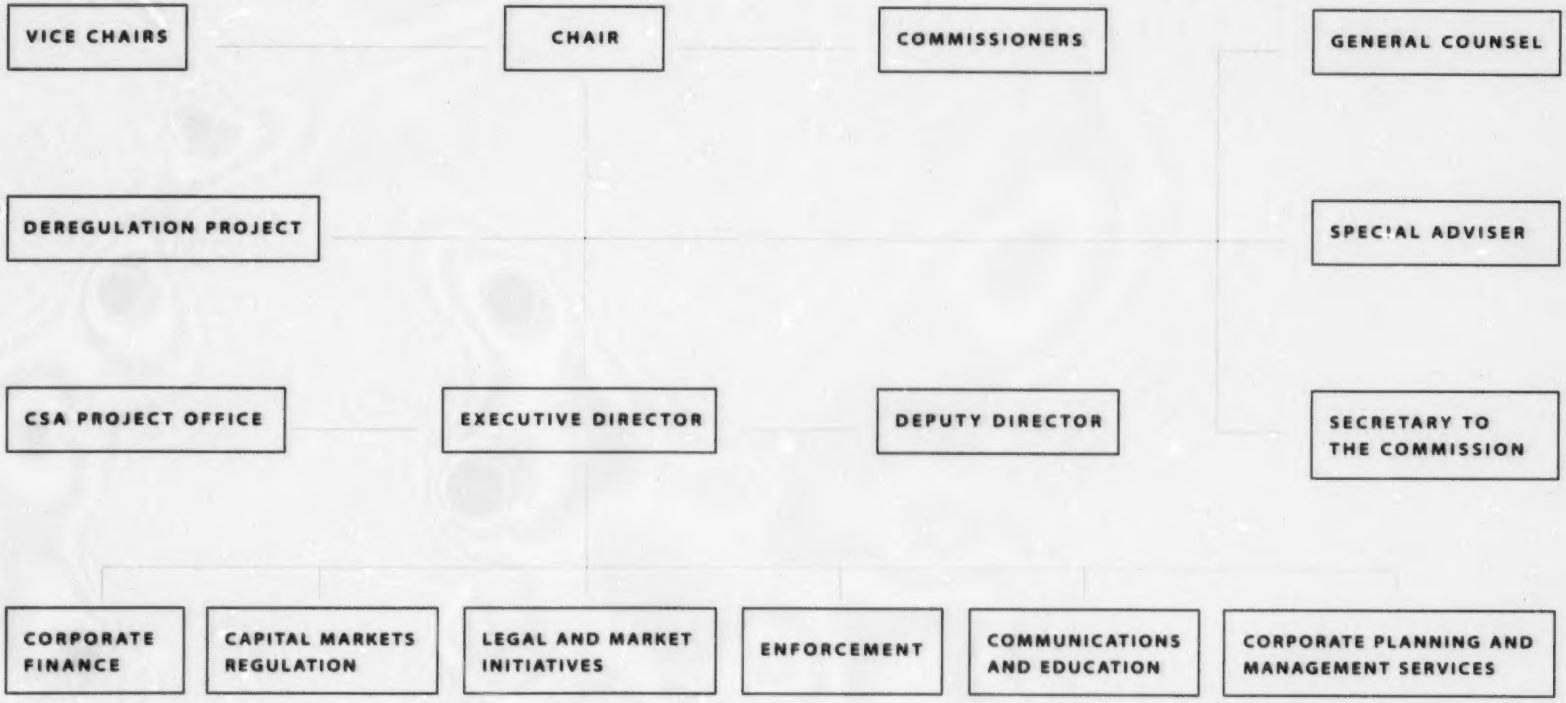
RELIANCE UPON AND OVERSIGHT OF SELF-REGULATORY ORGANIZATIONS

In pursuing our goal to ensure capital markets are efficient, fair and competitive, we rely on four self-regulatory organizations (SROs): the Investment Dealers Association of Canada (IDA), the TSX Venture Exchange (TSX-V), the Mutual Fund Dealers Association of Canada (MFDA) and Market Regulation Services Inc. (RS).

Each of these organizations has authority under the BCSC's general supervision, to adopt and enforce rules to protect the fairness and integrity of the market. Persons directly affected by regulatory decisions of these bodies can appeal to the BCSC and ultimately to the BC Court of Appeal.

THE CANADIAN SECURITIES ADMINISTRATORS (CSA) is a forum for Canadian Securities Regulatory Authorities to co-ordinate and harmonize regulation of the Canadian capital markets. It comprises 13 provincial and territorial securities regulators who share the mandate of protecting investors from unfair, improper or fraudulent practices while fostering fair and efficient markets. They accomplish this through activities including reviewing prospectuses; monitoring continuous disclosure documents; conducting compliance reviews of registrants; granting discretionary exemptions from registration and prospectus requirements; educating industry and investors and investigating possible violations of provincial securities laws.

BCSC ORGANIZATION



THE COMMISSION – the statutory body responsible for administering the *Securities Act* and providing executive direction to Commission management

THE EXECUTIVE DIRECTOR – the chief administrative officer responsible for managing BCSC operations

DEREGULATION PROJECT – working to reduce regulatory requirements so they impose the minimum burden on industry without compromising investor protection and market integrity

CORPORATE FINANCE – regulates disclosure by public companies, mutual funds and corporate insiders

CAPITAL MARKETS REGULATION – regulates exchanges, self-regulatory organizations, dealers and advisers

LEGAL AND MARKET INITIATIVES – develops legislation, rules and policies, advises the Commission on regulatory matters, decides on exemptive relief applications and manages take-over bid regulation

ENFORCEMENT – investigates suspected misconduct in the securities market and takes enforcement action where appropriate

COMMUNICATIONS AND EDUCATION – informs investors, industry and the public about BC's capital markets and regulation

CORPORATE PLANNING AND MANAGEMENT SERVICES – manages the Commission's infrastructure

(message from the chair)

DOUGLAS M. HYNDMAN

Securities regulators around the world faced new and unexpected challenges last year. The terrorist attacks on the United States and the failure of Enron Corporation tested the resilience of financial markets. These events happened amid the continuing fallout from the collapse of the technology bubble in 2000 and the global downturn in economic activity.

In addition to these short term and cyclical factors, we also continue to see structural changes in the securities markets, driven by information and communications technology, new financial products and services, integration of global markets and the convergence of financial services sectors.

Within the Canadian market, 2001/02 was a year of significant change. The Toronto Stock Exchange (TSE) acquired the Canadian Venture Exchange (CDNX) on August 1, 2001, and moved its trading to the senior exchange's trading system in December. Also in December, the Canadian Securities Administrators (CSA) adopted rules to permit alternative trading systems to compete with traditional exchanges. More recently, the TSE changed its brand name to the TSX and changed the name of the CDNX to the TSX Venture Exchange.

In February 2002, we recognized a new self-regulatory body, Market Regulation Services Inc. ("RS"), which was created as a joint initiative of The Toronto Stock Exchange Inc. and the Investment Dealers Association of Canada. RS assumed the market regulation functions formerly performed by the TSX and the TSX Venture Exchange and has a mandate to regulate trading on exchanges and alternative trading systems under a common set of trading rules.

During the year, the Mutual Fund Dealers Association of Canada began to accept members, as it prepares to become fully operational as a self-regulatory organization during 2002. There was further consolidation in the securities industry, as some US-based dealers sold their Canadian operations to domestic banks, several independent mutual fund dealers merged operations and two major fund managers combined forces. Mergers and acquisitions among publicly traded companies, both domestic and cross-border, also affected the profile of our public markets.

Despite the turmoil and change, the BCSC's mandate remains unchanged. We are here to protect investors and ensure the securities market is fair and efficient and warrants public confidence as well as to foster a dynamic and competitive securities industry that provides investment opportunities and access to capital.

To fulfill our mandate, we have to remain flexible and adapt to changing circumstances. In addition to the changes in the markets and the regulatory world, we must respond to the broader provincial policy environment. When the new government took office in June 2001, responsibility for the BCSC was transferred from the Ministry of Finance, our home since 1986, to the new Ministry of Competition, Science and Enterprise.

As an independent provincial government agency, we participated in the government's core services review process. The Core Services Review taskforce examined our mandate, structure and operations. We presented a plan based on a vision to make British Columbia, by 2005, the best place to invest and raise capital in North America and a recognized leader by providing securities regulation that is innovative, low cost, and tough but fair. The government has accepted this plan and it forms the basis of our 2002-05 service plan.

A key part of our vision is to reduce the burden of regulation on market participants. We have developed a system with too many rules that are too complex. We want our rules to impose the minimum burden necessary to maintain effective investor protection and market integrity.

We started a process to simplify our rules with a streamlining project in which, between June 2000 and June 2001, we reviewed all of our notices, blanket orders and local policies. We eliminated more than 150 instruments and we streamlined those we kept, putting them all into a subject-based numbering system used for national instruments and policies.

In October 2001, we ramped up the streamlining process by establishing our Deregulation Team, under the leadership of Vice Chair Brent Aitken. The team has a two-year mandate to review all of our legislation and rules and recommend changes. The objective is to make regulation less burdensome and more effective and to meet the government's target of reducing by one-third the number of regulatory requirements we impose.

Although there is much we can do in British Columbia to simplify our rules, most of our market participants are also affected by rules in other provinces. We are therefore co-ordinating our streamlining initiatives with the regulatory reform efforts of the CSA.

The CSA has identified two major challenges facing securities regulators: a regulatory burden that threatens the competitiveness of Canadian markets; and innovation by market participants, which requires us to modify the way we regulate. In response, CSA has established a three track reform process: to develop uniform securities legislation within two years to harmonize existing requirements and incorporate as many reforms as possible; to review broader reforms for implementation after the uniform legislation project is complete; and to respond on a timely basis to current and emerging issues without waiting for the larger reform projects.

Although we strongly support the goal of harmonization, we think it is even more important to work on simplification. We are therefore working within these CSA processes to seek national adoption of proposals to reduce the volume and complexity of regulatory requirements.

While provincial securities regulators work on reforming regulation, some industry participants and media commentators are reviving the old debate about creating some form of national securities Commission in Canada. Comments on this issue are often directed at securities regulators, but it is up to governments to decide whether they want to agree on the constitutional change or delegation system necessary to change the current structure of securities regulation.

Although a properly organized national regulator could bring some efficiency advantages, there could also be significant disadvantages, particularly for British Columbia, which has some unique market attributes and little influence in national institutions. Furthermore, creating a national Commission would not necessarily address, and could divert attention from, the problem of excessive volume and complexity in securities rules. Since the structural issue is outside our control and seems unlikely to be resolved soon, we are devoting our attention to simplifying our rules and making the CSA work better as a forum for nationally coordinated regulation.

In addition to dealing with these high profile issues, our Commission had a very productive year in meeting our objectives. I would like to recognize the achievements of the Commission's staff, led by our Executive Director, Steve Wilson, in transforming our working culture over the past few years to one more focused on the timely achievement of results and the efficient management of our resources. Mr. Wilson's report focuses on how we performed in the fiscal year 2001-2002 compared with the objectives in last year's strategic plan.

I would like to comment briefly on three important projects on which we made major progress.

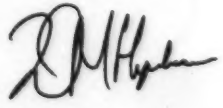
In March 2002, we adopted a new rule to simplify the regulation of private placements, which makes it easier for businesses to raise capital while enhancing investor protection and broadening investment opportunities. Vice Chair Adrienne Salvail-Lopez led a team that developed this innovative rule in a coordinated project with the Alberta Securities Commission. The team undertook active public consultations through focus groups and town hall meetings, which are serving as a model for other significant policy development projects.

During the year we had most of our staff trained in plain language skills and developed a manual as a guide to improve the clarity of our communications. Vice Chair Joyce Maykut led the plain language initiative, through which we are communicating with our stakeholders in language that is easier to understand. By communicating more clearly, we can help market participants understand their rights and obligations.

We also continued to expand and improve our program of investor and industry education. Many of our Commissioners and staff participated in education events all over British Columbia. This program is intended to arm investors with the basic tools they need to protect themselves and to help industry understand and comply with the rules of the market. We fund education through the budgeted activities of our Communications and Education Department and with disbursements from our Education Fund, into which we deposit penalties and settlements we collect. We have recently created a new committee of Commission members to develop a plan for the future direction of our industry and investor education activities in light of changes in markets and regulation.

Finally, I am pleased to welcome three new part-time Commissioners – Neil Alexander, Marc Foreman and Bob Milbourne – who were appointed in March, bringing with them a broad range of industry, regulatory and financial experience. I also wish to thank former Commissioner, Diane Wolch, who retired from the Commission last October after giving British Columbians six years of excellent service.

We have an ambitious agenda and we face many challenges in the years ahead. We are fortunate to have a strong team of Commissioners and staff who, I am confident, will rise to the occasion.



DOUGLAS M. HYNDMAN
Chair and Chief Executive Officer

(commissioners)

THE COMMISSIONERS are appointed by the provincial government and are responsible for administering the *Securities Act*. They are chosen for their skills and experience in business, law, capital markets and regulation. The BCSC currently has 10 Commissioners.

COMMISSIONERS HAVE THREE BASIC FUNCTIONS:

1. They serve as the BCSC's board of directors and oversee its management.
2. They establish rules and policies to regulate securities market participants.
3. They conduct hearings and make decisions under the *Securities Act*.

DURING THE YEAR, the Commissioners rendered a total of 24 decisions, down from 29 in the previous year. These decisions related to:

+ 13 enforcement cases
+ 3 reviews of CDNX decisions
+ 2 reviews of Executive Director decisions
+ 7 applications to vary previous orders
+ 4 requests for disclosure of documents, standing at a hearing or stays of decisions
+ 4 take-over bid decisions

(commissioners)

DOUG HYNDMAN, *Chair*

+ Appointed 1987
+ Assistant Deputy Minister, Treasury Board, BC Finance Ministry, 1984 -1987
+ Economist, BC Finance Ministry, 1975-1984
+ MBA, University of Western Ontario, 1975
+ B.A. (Economics), University of BC, 1972

BRENT AITKEN, *Vice Chair*

+ Appointed 1995
+ Member, BCSC Human Resources Committee
+ Director, Nav Canada, 1995 -1999
+ Senior Vice President, Canadian Airlines International Ltd., Calgary, 1987-1992
+ Corporate and securities lawyer, Bennett Jones, Calgary, 1979 -1987
+ Sessional instructor, securities regulation and corporate finance, University of Alberta and Calgary law schools, 1981-1984
+ Seconded Counsel, Alberta Securities Commission, 1980 -1981
+ LL.B., University of Alberta, 1978

JOYCE MAYKUT, *QC, Vice Chair*

+ Appointed 1990
+ Solicitor, 1981-1986, and Senior Solicitor, 1986 -1990, Vancouver Legal Services Branch, Ministry of the Attorney General
+ Criminal practice, sole practitioner, Vancouver, 1977-1981
+ Prosecutor, federal Department of Justice, 1974 -1976
+ LL.B., University of Alberta, 1974

ADRIENNE SALVAIL-LOPEZ, *Vice Chair*

+ Appointed 1992
+ Member, BCSC Audit Committee, Chair, Investor and Industry Education Committee
+ Director, BCSC Policy and Legislation Division, 1987-1992
+ Senior Policy Adviser, BC Finance Ministry, 1982 -1987
+ Called to the BC bar, 1982
+ LL.B., University of British Columbia, 1981
+ B.A. (Economics and Commerce), Simon Fraser University, 1978

NEIL ALEXANDER, *Commissioner*

+ Appointed March 2002
+ Member, BCSC Audit and Investor and Industry Education committees
+ Bank of America 1980 - 2001, marketing, credit administration and project finance
+ Queen's University, MBA, 1978
+ University of Victoria, BA (History), 1973

JOAN BROCKMAN, *Commissioner*

+ Appointed 1998
+ Chair, BCSC Human Resources, Investor and Industry Education committees
+ Professor, School of Criminology, Simon Fraser University
+ Called to the BC bar 1983 and the Alberta bar 1981
+ LL.M., University of British Columbia, 1982
+ LL.B., University of Calgary, 1980
+ M.A. (Sociology), University of Alberta, 1976
+ B.A. (Sociology), University of Saskatchewan, 1973

MARC FOREMAN, *Commissioner*

+ Appointed March 2002
+ Member, BCSC Human Resources Committee
+ Former Vice-President, Vancouver and Canadian Venture Exchanges, 1986 - 2001
+ Vice President, Trans Canada Options, 1986 - 2001
+ Director, International Options Clearing Corporation, 1986 - 2001
+ General Manager, Service Corporation, 1976-81

JOHN GRAF, *Commissioner*

+ Appointed 1998
+ Chair, BCSC Audit Committee
+ Various positions with Norske Skog Canada Limited (formerly Fletcher Challenge Canada Ltd.) from 1973 to 1997, retired in 1997 as Vice-President, Secretary and Treasurer
+ Taxation Specialist, Arthur Andersen & Co., 1968 -1973
+ Chartered Accountant, 1968
+ B.Comm., University of British Columbia, 1966

BOB MILBOURNE, *Commissioner*

+ Appointed March 2002
+ Member, BCSC Human Resources, Investor and Industry Education committees
+ Registered Professional Engineer, Ontario
+ Commissioner, Ontario Human Rights Commission, 1991 - 1996
+ Various positions, President and Chief Operating Officer, Stelco Inc., 1963 -1996
+ Banff School of Advanced Management, 1977
+ BASc UBC, 1963

ROY WARES, *Commissioner*

+ Appointed 1998
+ Member, BCSC Audit Committee
+ Registered Professional Geologist, Newfoundland
+ Registered Professional Engineer, BC
+ M.Sc. (Regional Resources Planning), University of Aberdeen, 1979
+ M.Sc. (Geology), Queen's University, 1971
+ B.Sc. (Hons) Geology, University of Aberdeen, 1964

Our special thanks to Diane Wolch who retired as Commissioner in 2001 after six years of service to the British Columbia Securities Commission.

(message from the executive director)

STEVE WILSON

Q. How did the Commission do this year?

A. I can best answer that by looking at our three key performance areas: our success in meeting our business objectives, our financial performance, and the quality of our service to customers and stakeholders.

In terms of meeting our business objectives, we completed on time 138 out of 154 objectives we set out for the year in our strategic plan. However, 11 of the targeted objectives, including the CSA Insider Trading System and National Registration Database, had to be deferred or rescheduled for reasons beyond our control. Of the remaining 143 objectives, the 138 we achieved reflect a completion level of almost 97 per cent, a solid improvement over our 89 per cent completion rate last year.

We also had a successful year keeping costs on target, with our total costs coming in at $26.4 million, comfortably within our budget of $27.2 million.

All of this was achieved while improving our service to customers and stakeholders. In our yearly Performance Measurement Survey, 80 per cent of our stakeholders indicated they were highly satisfied with our service levels. This is a major improvement over the 69 per cent rating we received in the previous year. More than one-third responded that our service levels have improved. For example, our handling of exemption requests was significantly better, as were our response times in Corporate Finance. I am also very proud of the fact that our new general inquiries group has been able to resolve a majority of public inquiries within 24 hours – including one-quarter that were handled within an hour.

So, we did what we committed to do – and to a very high degree. We have an exceptional staff to thank for these results.

Additionally, we completed a number of critical projects and fixed some important problems.

Q. A major feature of the Commission's strategic approach to regulation is to focus on the most important problems and fix them. What's an example of an important problem that you have been able to fix in the last fiscal year?

A. Better co-operation with self-regulatory organizations (SROs) to ensure better compliance by industry participants was something we said we would focus on. This is a good example of an area where we have had a positive impact. We entered the year with a high level of non-compliance by certain registrant firms. To address this, we conducted a joint action program with the Investment Dealers Association of Canada (IDA). Working with the firms involved, we were able to considerably improve their level of compliance. The improvement was measured through sales compliance reviews completed by the IDA.

Q. How exactly did you make this happen?

A. We first advised the firms whose level of compliance we considered unacceptable and gained their agreement to improve their compliance practices within a fixed time frame of six months. We then followed up with compliance audits by IDA staff. In some cases these compliance audits were augmented by enforcement activities.

Q. What were some of the major challenges that the Commission addressed this past year?

A. The Deregulation Project, a two-year program designed to reduce regulatory burden, is perhaps the single largest initiative from a staffing perspective ever undertaken by the Commission. One of our biggest challenges was the need to allocate eight of our staff to this project, requiring a very significant internal re-organization. This was completely unforeseen at the start of the fiscal year. Despite the disruption, we still managed to improve our overall service levels.

Q. How did you manage this?

A. We merged our Policy and Legislation Division with our Exemptions and Orders Division to form a new division called Legal and Market Initiatives. This has allowed us to make more effective use of the legal talent we have in the Commission by having policy lawyers work on applications for exemptive relief and vice versa. We were then able to create more enriched jobs, while providing staff to the deregulation project without reducing our service levels.

All in all, it has been a great success to date. Again, the skill and flexibility of our staff in these areas has made this transition work.

Q. What are some other major initiatives?

A. We cut our fees again – this time to eliminate our accumulated general surplus via temporary fee reductions that will see approximately $12.2 million returned to industry. This is consistent with the provincial government's drive to reduce the cost of doing business during these difficult times in the markets.

The reductions will save issuing companies about $5.9 million in fees, and market intermediaries (such as brokerage firms and mutual fund dealers) will save $6.3 million over this year and next year. We expect these cost reductions will be passed along to investors.

Q. What have you done to contribute to the province's technology initiatives?

A. As one example, we formed a New Economy and Adoption of Technologies (NEAT) group this year. This group is charged with finding ways we can help startup companies and firms in high-technology and other emerging sectors find financing for their businesses and by ensuring they are not hampered in their capital-raising efforts by unnecessary regulations.

Q. What will be the Commission's focus in the coming year?

A. We intend to continue with our approach of identifying important regulatory problems and fixing them. To do that, we have identified five major strategic objectives:

1. Reduce the burden of securities regulation
2. Speed up our regulatory processes
3. Improve compliance by certain registrants
4. Improve the quality of disclosure by BC issuers and insiders
5. Reduce the impact of illegal distributions and internet scams on BC investors

Q. What are some examples of initiatives to tackle these objectives?

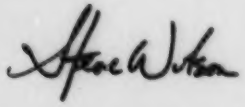
A. I mentioned our deregulation project. The deregulation team is developing a new scheme of regulation that will impose the minimum regulatory burden on industry necessary to provide investor protection and market integrity, without unduly compromising the goal of national uniformity.

In addition, we will continue with our plain language initiative to make all of our documents easier to understand and will remain very focused on investor education. In fact, one of our highly successful activities in this area is a video we recently produced on affinity fraud. This is a growing problem in the province that has seen investors lose millions of dollars to con artists who join church and community groups to gain the trust of members and then bilk them. We will be distributing the video to groups and associations throughout the province alerting them to this danger.

We also intend to introduce an improved process for early detection of emerging problems so that we can react more quickly, whether in the area of noncompliance or fraudulent securities activity, rules and regulations, or problems with disclosure. We plan to engage industry, law enforcement agencies, and SROs in this process.

In addition, we will be monitoring very closely the activity under our new private placement rules, particularly the new offering memorandum exemption. We will track the level of compliance as well as assess how the new rules are being used and by whom. We are particularly interested in seeing the client profile of purchasers of these securities. We will also be paying close attention to the quality of the sales process to find out whether investors are being fully apprised of the risks and liquidity limitations associated with these securities.

Finally, we will maintain our commitment to the Canadian Securities Administrators (CSA). The CSA project office is currently located within the Commission and we also host the CSA website. Therefore, we are heavily committed to the management of CSA projects. For example, we continue to work on two important automation projects with our CSA partners: the System for Electronic Disclosure by Insiders (SEDI), which we expect to relaunch later this year to eliminate paper filings of insider reports; and the National Registration Database, which will allow registered dealers to register their representatives electronically.



STEVE WILSON
Executive Director

(our performance for the year)

(our performance for the year)

BCSC'S MISSION is to protect the interests of investors and promote market efficiency. To accomplish this, we work toward three-year strategic goals – the foundation of our Service Plan – and pursue them systematically by setting annual strategic objectives that allow us and our stakeholders to measure our performance. Our priorities are strongly influenced by the following changes and trends affecting capital markets:

+ The global business of capital raising and securities trading has become highly competitive.
+ The world economy has recently slowed, markets have become volatile and, as a result, raising capital is both more necessary and more difficult.
+ Technology is driving the creation of new financial products and services.
+ The structure of markets and roles of intermediaries are changing.
+ Retail investors have put a growing share of their assets into the public securities markets.
+ Investors are increasingly being targeted by new types of fraud.

In the face of these challenges we must be able to deliver tangible solutions to fulfill our regulatory mandate. The best way for us to do this effectively is to determine which problems have the highest importance and follow a sound plan to fix them. In 2001/02 we identified the following major problem areas as priorities we needed to address:

1. excessive regulatory burden on the securities market
2. cost to the market of regulatory delays
3. lack of compliance by registrants
4. continuous disclosure by reporting issuers
5. affinity and internet investor scams

We set 154 specific objectives for the year to help us deal with these challenges and achieved 97 per cent of them, a significant improvement over last year's achievement rate of 89 per cent. The following pages summarize the year's accomplishments, outline future activities, and review other initiatives undertaken as part of our ongoing improvements to operations.

REDUCING THE REGULATORY BURDEN ON THE SECURITIES MARKET

Market participants have told us they are overburdened by our rules, regulations, policies and other instruments. They point to the costs and difficulties of trying to comply with complex instruments written in language that is hard understand. They also cite the challenge of dealing with a continuous stream of new rules and a body of old rules that has become outdated. Some complain that we are bureaucratic and inflexible in our approach to new issues and in exercising our discretion.

These issues are not unique to securities regulation. Regulators in all fields hear the same complaints. Responding to these concerns, the provincial government has set a target to reduce the province's overall regulatory burden by one-third by 2004. This applies to all regulatory bodies including the BCSC. We are committed to meeting or exceeding this target. Our challenge, though, is to strike a balance between demands to make the regulatory system more efficient and our capital markets globally competitive, and the need to ensure effective protection of the investing public.

We have made progress in responding to these criticisms in the past few years. During 2001-02 we stepped up the effort. We are working closely with the Canadian Securities Administrators (CSA) to produce a proposal for harmonization throughout Canada under the Uniform Securities Law Project. Achieving harmonization would make a significant difference to the compliance burden, although it would not, in itself, deal with the fundamental problem caused by the volume and complexity of securities laws and policies.

We have therefore gone further. In October 2001, the BCSC established the Deregulation Project, a two-year initiative to significantly reduce the burden of regulation. Its objective is to impose the minimum regulatory burden necessary for investor protection and market integrity, while supporting a broader goal of developing uniform requirements among Canada's provincial securities regulators.

Under the Deregulation Project, we are reviewing each of our current requirements and asking what problem it was intended to address, whether it is still needed, and, if so, whether it can be simplified.

In February 2002, we published a paper for comment – New Concepts for Securities Regulation – to initiate public discussion of some high-level ideas to simplify and improve the effectiveness of regulation. After extensive consultations and further development of the concepts, we published "New Proposals for Securities Regulation" in June 2002. We will be conducting further consultations throughout the year as we continue to develop these ideas and proceed with a more detailed review of regulatory requirements.

We are also attempting to make regulation more transparent and accessible through our plain language initiative. We completed phase one of this program during the year and established the objective of producing documents that are unambiguous and easily understood by market participants. We used the plain language principles in drafting part of our new system of private placement exemptions, developed jointly with the Alberta Securities Commission. The harmonized rules make capital raising in the two provinces easier and less costly for businesses, without compromising investor protection.

Through the CSA, we made progress on some other important projects to streamline regulatory requirements. We developed proposed new rules to harmonize and update continuous disclosure requirements for all publicly traded companies in Canada. These were published for comment in June 2002, and represent the first step in developing an Integrated Disclosure

System (IDS), which will further simplify disclosure for public companies and eliminate regulatory delays in accessing markets for new capital.

We encountered problems and delays during the year in completing development of our new national electronic filing systems. The electronic insider reporting system, which will eliminate paper filing of trading reports by providing a single electronic system for filing and public viewing, was brought online and made available for filings in January. However, it was shut down after less than two weeks due to serious performance deficiencies. We are working with CDS Inc., the system operator, to fix the technical problems and bring the system back into use as soon as possible.

Development of the National Registration Database is proceeding more smoothly although the startup has been delayed from the original plan.When it is launched later this year, this database will cut paperwork and speed up the registration process for industry.

Other objectives achieved during the year as part of the ongoing effort to reduce the regulatory burden include:

- fostering contacts in high-growth industries to seek ways to help them, from a regulatory perspective, in their financing activities
- developing a national policy on escrow
- streamlining our local notices, policies and blanket exemptions and developing ongoing procedures to maintain currency of these instruments
- continuing to make improvements to our website and other tools to assist industry with regulatory needs

We had an objective of developing a common approach to regulation across CSA jurisdictions. Discussions with our CSA partners yielded important progress, notably in the establishment of the Uniform Securities Law Project, but important regional differences in regulatory approach and philosophy continue to be a challenge. We will be making further efforts to bridge these differences in the coming year by consulting directly with market participants in other provinces.

SPEEDING UP REGULATORY PROCESSES TO REDUCE THE COST OF DELAYS

We realize that regulatory delays increase costs for market participants. To address this, the BCSC and the CSA have been working hard to improve processes and complete projects in a more timely manner. Last year we identified delays in introducing rules and policies, reviewing exemptive relief applications and completing investigations as core areas in which we could improve. The following are some key improvements we have made over the year.

We have developed a new system that reduces the average number of cases handled by each investigator, enabling them to expedite investigations. We have also implemented a system to help us prioritize and speed up investigations and litigation matters, and have reduced the time taken by the litigation department to achieve resolution. Additionally, we have lowered by 20 per cent the number of case files that are older than three years.

We have developed and implemented a program to get immediate comments on our service levels from persons who file applications for discretionary exemptions. We have obtained valuable feedback from industry through more than 60 questionnaires that have been completed to date.

One of the most effective measures we have taken to minimize delays is expanding the use of cross-divisional work teams. This approach combines staff expertise in various disciplines to deal more effectively with complex applications, issues and projects. For example, cross-divisional teams are addressing issues relating to the standards for mineral disclosures, takeover bid regulation and mutual fund policy development.

To ensure we are responsive and timely in meeting the changing needs of stakeholders, Commission staff need to keep pace with rapid changes occurring in capital markets. We have taken an important step by establishing a network of contacts in industries critical to British Columbia's economic success. For example, this past year we formed the New Economy and Adoption of Technologies (NEAT) group which has consulted industry groups such as the BC Technology Industries Association to learn more about the capital-raising needs of companies in the high-tech sector. In the coming year, NEAT will focus on improving our understanding of how firms operate and assessing how the Commission can assist by eliminating unnecessary regulatory requirements or revising existing requirements.

INCREASING COMPLIANCE AMONG REGISTRANTS

BCSC and IDA reviews have demonstrated that some registered firms do not comply with their "know your client" and "gatekeeper" obligations. The importance of these obligations is underscored in light of new federal requirements targeting money laundering and the financing of terrorism. The reputation of the British Columbia capital markets is harmed when registrants and their salespeople engage in inappropriate and illegal market activities, whether locally or in foreign markets.

In the last year, we have made solid progress addressing deficiencies we identified in certain firms' sales compliance practices. We have helped these firms more clearly understand their regulatory responsibilities through initiatives such as publishing sector reports and delivering compliance officer workshops on "best practices." Also, BCSC examiners have been assigned to individual firms to provide better service.

Regulators must rely heavily on the brokerage industry to be the front line of compliance efforts. In partnership with the IDA, we have been working to improve compliance through monitoring and support programs designed to encourage a "culture of compliance" in firms where examinations have revealed problems.

We have created compliance "report cards" for IDA member firms. These reports show firms where they have met compliance standards and where they are deficient. The reports also describe best practices of compliant firms that can be modelled. We have begun distributing the reports, with firm identities kept confidential, to allow members to compare their compliance performance to other firms.

We will also be working to improve the compliance level of non-IDA member firms by examining investment counsel, securities advisers and exchange contracts dealers not reviewed in the last fiscal year to identify and address significant compliance deficiencies.

Supporting our efforts to increase compliance, we publish several times per year a newsletter providing information on common compliance problems facing registrants as well as plain language interpretations of securities regulations. 'The Registrant' is distributed to more than 21,000 individuals registered to sell securities in BC.

We are working with industry, on behalf of the CSA, on a national database that will allow convenient access to cease trade order information. This electronic system will enable dealers to ensure they comply with cease trade orders against issuers, including those whose issues are not traded on Canadian exchanges.

The measure of our success as we work toward improved compliance will be a lower number of significant deficiencies among registered firms in future examinations. We continue with our efforts to meet this objective through many initiatives focused on:

- communicating to industry our dedication to improving compliance
- emphasizing the gatekeeper responsibility of securities industry professionals
- developing and delivering effective education programs to compliance staff and registered representatives

IMPROVING CONTINUOUS DISCLOSURE BY REPORTING ISSUERS

Investors have a right to timely and accurate information about a company's financial health as they rely on this information in deciding whether to buy, sell or hold a stock. Our objective is to ensure that investors receive meaningful continuous disclosure of financial and other material information on a company's performance.

Our staff found through reviews that many companies failed to meet required standards for continuous disclosure. In response, we embarked on a program of education, enhanced reviews, and compliance and enforcement action where warranted.

Since introducing our Continuous Disclosure Review program (CDR) in 1998, we have conducted comprehensive reviews of 260 reporting issuers. We asked 114 of them to re-file their quarterly or annual management discussion and analysis of financial results, or MD&A, 11 to re-file their audited financial statements and 34 to re-file their interim financial statements. We asked many others to make changes in future disclosure.

As a measurement tool, in March 2002 we compared the quality of disclosure of a sample group of reporting issuers last year to the quality of their disclosure before the Continuous Disclosure Review program. Almost every company in the group showed some improvement in the quality of disclosure, and 56 per cent showed a noticeable improvement.

Also in the last year, we sharpened our focus on the timeliness of reporting. Despite our previous efforts, a large number of reporting issuers still failed to file annual and interim financial statements within the 140- and 60-day deadlines. In May 2001, after giving notice of a tougher approach, we issued a bulk cease trade order against 51 companies that had failed to file their annual statements. Also during the year, we moved aggressively by imposing more cease trade orders and administrative penalties against insiders who failed to file reports.

Over the past year, we published several informational brochures to help BC-based issuers better understand their continuous disclosure obligations. The first 'Continuous Disclosure Staff Report,' published in April 2000, focused on commonly found deficiencies. A second publication entitled 'CD Update', published May 2001, contained additional comments and recommendations. Both publications provided information on: penalties for late filing; maintaining accurate SEDAR filer profiles; improving the quality of public disclosure; and the new national instrument on disclosure standards for mining projects. We also held several industry education forums.

In the coming year, we will be enhancing our Continuous Disclosure Review program to identify major recurring disclosure problems and develop action plans to improve compliance. We have added a geologist to our continuous review team to review compliance with new disclosure standards for mining projects. We also have reallocated resources to establish a disclosure compliance team to deal with serious public company and insider reporting violations.

As education remains central to improving continuous disclosure, we are developing more initiatives to educate issuers, insiders and their advisers of disclosure requirements. We also plan to gather industry feedback on our disclosure reviews and education initiatives.

Each year, British Columbians lose millions of dollars of their hard-earned money to fraudulent investment schemes. We recognize that the best solution to the problem of investment fraud is not after-the-fact enforcement, but proactive deterrence and education initiatives. This is consistent with the CSA's core strategy to provide effective deterrence of abusive, unfair and fraudulent practices through aggressive co-ordinated enforcement.

With con artists preying on unsuspecting investors at an alarming rate, we decided last year to take specific measures against two disturbing and growing types of investment scams: affinity fraud and internet fraud.

Affinity fraud refers to investment scams in which perpetrators establish and then exploit a relationship – or affinity – with the investor. Con artists often do this by joining, for example, a church group or other association, gaining the trust of unsuspecting members, and then taking their money through a fraudulent scheme.

We developed a profile of typical investors vulnerable to affinity fraud to help investigators identify and deal with these victims, who are often reluctant to come forward in an investigation. We have also developed a surveillance system using an information network of sources to help uncover and stop improper investment schemes.

For prevention, however, our best weapon against investment scams is investor education. The more people are aware of the types of fraudulent activities that may be infiltrating their communities, the better prepared they will be to protect themselves before they become victims. In pursuing this objective, we developed important educational tools to fight affinity fraud. One of these was a highly successful 19-minute documentary-style video focusing on an increasingly popular form of church-based fraud.

The video was featured at several presentations to church groups in the Vancouver area. It also garnered coverage by national and provincial media, which helped to broadly disseminate the message that investors must apply the same caution and prudence to an investment opportunity presented within a church community as they would to an opportunity presented anywhere else.

We intend to distribute the video to churches and associations throughout the province and share it with other law enforcement and regulatory agencies. To complement this effort, we plan to publish an informational brochure on affinity fraud as a take-away item for investors who attend seminars we jointly sponsor with churches.

Con artists also use the internet to contact large numbers of potential investors. Through this powerful medium they have the ability to create an illusion of substance and put a new face on what are, in fact, old-fashioned scams. These scams are difficult for regulators to detect and investigate, and require coordinated action on a national and international basis. We are working with our Canadian colleagues and foreign regulators to conduct internet reviews and sweeps in an international effort to fight securities fraud.

Education has always been considered a prime tool of the Commission in meeting its dual mandate of protecting investors and fostering a competitive industry. During the last year, we stepped up our educational initiatives targeting both investors and industry.

INVESTOR EDUCATION PROJECTS Our province-wide seminar series called 'Investigate Before You Invest' is a major initiative to teach investors how to protect themselves. After receiving public speaker training, more than 50 staff members delivered 25 seminars in partnership with organizations including the province's credit unions, the Vancouver School Board, the Richmond Public Library, the Seniors' Foundation of BC and the Better Business Bureau of Mainland British Columbia. We also updated this 40-minute presentation by including new information and tools for investors to assess their own risk tolerance, identify their investment goals, choose a financial adviser or appraise an investment opportunity.

In our continuing efforts to reach youth, we gave Junior Achievement $99,000 from the BCSC Education Fund for the non-profit organization's 'Dollars and Sense' program. Junior Achievement delivered this one-day course on savings and investment to over 132 Grade 8 classes throughout southwestern British Columbia. Several BCSC staff members volunteered to teach the course, further supporting this valuable program.

We also contributed $172,000 from the Education Fund to the Investor Learning Centre, an educational foundation operated by the industry-supported Canadian Securities Institute. The main initiative supported by this funding was the distribution of 17 popular investor self-help books to each of BC's 250 public libraries and a media campaign encouraging readership.

The Seniors' Foundation, with whom we first partnered in 2000, received $75,000 to further enhance its Estate Planning seminars, which include a BCSC seminar component.

We also provided $45,000 to fund a survey by the BC International Commercial Arbitration Centre to determine how it can encourage investors to use the centre to more efficiently resolve disputes with the securities industry through mediation or arbitration.

INDUSTRY EDUCATION PROJECTS We have been seeking ways to work more closely with industry to raise awareness of regulation and ethics in the securities industry. We provided $75,000 through three annual $25,000 grants to Simon Fraser University's new Wealth Management MBA program. This investment gives us input on the course curriculum to ensure these concepts are addressed, as well as a "window" on trends in the accreditation requirements for fund managers.

We have also become more active in communicating with market participants, both to solicit their input and to educate the industry about securities regulation. One of the most significant of these activities is a one-day conference called 'Capital Ideas', which we held for the first time in June 2001 and repeated in June 2002.

In developing regulatory initiatives, we have traditionally used a passive approach of seeking industry comment through publishing proposed regulations. This past year, we took a new and proactive approach in developing our new private placement exemptions by holding focus groups to solicit industry opinion prior to developing new rules. After developing and publishing draft rules, we held two well-attended information sessions to inform industry and obtain further input.

To prepare market participants for the initial launch of SEDI, the new System for Electronic Disclosure by Insiders, we held four well-attended training and information sessions that attracted more than 800 participants. Since the initial launch failed and the system is being reprogrammed, we plan further educational events before it is relaunched.

We also expanded a seminar program designed to help mining industry participants understand their obligations under National Instrument 43-101, Standards of Disclosure for Mineral Projects. Four informational sessions as well as a booth at the annual Cordilleran Roundup mining industry show held in Vancouver in January 2001 attracted several thousand people. As part of the information program, BCSC staff prepared a 20-page brochure summarizing the essential information about the national rule in an easy to understand question-and-answer format. The brochure was published on behalf of the CSA and distributed in several provinces including Alberta, Ontario and Quebec.

(enforcement)

INTRODUCTION The BCSC has powers to enforce compliance within the securities legislation and to sanction market misconduct. Enforcement actions are resolved by Commission decisions or settlements. Panels of Commission members conduct hearings to consider allegations made and enforcement orders requested by Commission staff. Persons subject to enforcement proceedings can generally choose to settle with the executive director by admitting misconduct and consenting to enforcement orders and financial payments.

Since our last annual report, the BCSC issued 46 enforcement orders against, and received 23 undertakings from, persons found responsible for market misconduct.

The market misconduct included fraud, manipulation, illegal distribution of securities, trading by persons not registered, failure to comply with registrant obligations and failure to file insider reports.

The decisions and settlements are public documents. We post them on our website at www.bcsc.bc.ca.

FRAUD AND MANIPULATION Cases involving fraud and manipulation included the following:

- Robert A. DiIanni manipulated trading in the shares of a company listed on the TSX Venture Exchange. He had previously violated US securities laws, for which he was sanctioned by the Securities and Exchange Commission and spent several years in jail. After a hearing in September 2001, the Commission concluded that "DiIanni cannot be trusted to comply with securities laws" and banned him from BC markets for life.

- After a hearing in March 2002, the Commission found that Jesse J. Hogan, a Burnaby resident, used the internet to perpetrate a "pump and dump" scheme that manipulated the shares of five US public companies. Hogan disseminated misrepresentations on hundreds of message boards and chat rooms under numerous aliases. His conduct caused artificially high share prices. Hogan admitted that he had brought and sold shares in each company to profit from the artificially high price caused by his misrepresentations but he argued that this was not fraud because investors should know not to trust information on the internet. The Commission rejected this argument and, adopting the words of counsel for Commission staff, held the view that "just because the internet has vulnerabilities does not justify the exploitation of those vulnerabilities." The Commission will determine what orders it will issue following a hearing in the fall of 2002.

- After a hearing in November 2001, the Commission banned Tri-West Investment Club, Haarlem Universal Corporation, Jason Kingsley, Mark Goldman, Alan Richards and Alex Haarlem from our capital markets permanently for their roles in a prime bank scheme. They had defrauded investors by promising huge returns for short term investments in fictitious "prime bank instruments" purportedly issued by major international banks to meet temporary cash needs. The panel concluded, "In this case, Tri-West, Haarlem Universal and the individuals behind them used the anonymity and reach afforded by the internet to peddle their fraudulent investment scheme to anyone with access to their website, including investors in British Columbia. In doing so, they perpetrated a fraud on a massive scale." Under the decision, the panel banned John Byron from the markets for eight years for his role in the fraud. Under a settlement, Commission staff sanctioned Del Michel Albert Delisle in connection with this scheme.

ILLEGAL DISTRIBUTIONS We continue to encounter companies that raise capital from investors without providing disclosure or meeting other requirements. Recent cases include the following:

- After a hearing in July 2001, the Commission found that Ronald James Henry and Gordon Dix Jr. illegally sold shares in their company, Sota Mining Group Ltd. to unsuspecting investors. "Here the tragic element is that Henry and Sota targeted an especially vulnerable group – the elderly and unsophisticated," the Commission said. "Most were over 80 and had no knowledge of investment matters." The investors lost all their money. The Commission banned Henry and Dix from the market for 10 years each and fined them $25,000 each.

- Michael John Dowling raised almost $400,000 US for his company, Holisticom.com, by selling shares illegally to investors. Both Dowling and the company became insolvent and the investors lost all their money. Under a settlement agreement, the executive director banned Dowling from being an officer or director for five years and from engaging in investor relations for two years.

DEALERS AND THEIR SALESPEOPLE Persons registered to trade securities have general duties to act honestly and fairly and in the best interests of their clients; to know their clients, including their financial circumstances, their investment needs, and their business reputations; and to recommend only investments that are suitable for the clients. The following cases involved violations of these, and more specific, regulatory obligations:

- In two separate instances, mutual fund salesmen, Kevin Sean Killough and Abiodun Sofoluwe Sowemimo, defrauded their clients. Killough admitted that he had changed the address on his client's account records to his own. He then redeemed securities held in that client's accounts and sent the proceeds totalling $7,521 to his own residence. Sowemimo forged the signatures of two clients in order to misappropriate $31,498 from client funds for his personal purposes. Under settlements, each agreed not to apply for registration for 10 years and consented to orders prohibiting them from acting as an officer or director for five years.

- Seven mutual fund salespersons who worked for IDF Financial Services Inc. in Prince George were sanctioned. Rod Albers, Michael Flynn, Debbie Hanrahan, Peter James, Roger Ollenberger, Gordon Paterson and Alastair Sanderson, sold unsuitable, risky investments to their clients and participated in illegal distributions. Under a settlement, the executive director banned Ollenberger, Sanderson, Albers and Flynn from the market for eight years and banned Paterson, James and Hanrahan for five years. They were granted an exception to work for members of the Investment Dealers Association of Canada and the Mutual Fund Dealers Association of Canada.

- Mark Webster Vaughan Foster worked for Royal Advent Securities Corporation of Victoria and then his own firm, Foster First Financial Corporation. He participated in illegal distributions, failed to fulfill his duties under the *Company Act*, permitted misrepresentations to be made in filings with the Commission, sold unsuitable investments to clients, and failed to act fairly, honestly and in good faith in dealing with his clients. In a settlement with the executive director, Foster agreed to pay $35,000 and was prohibited from trading in any security or acting as a director or officer, or engaging in investor relations for 12 years.

- Jacob Norman Friesen and his wife Rose Friesen ran Friesen Securities and Friesen Financial of White Rock. They sold private placement securities that were highly risky and speculative and subject to restrictions that made them difficult if not impossible for the clients to resell. These securities "were not suitable for those clients based upon risk tolerances, level of investment knowledge, age and statement investment objectives of those clients," staff said. Under a settlement, the Friesens agreed to pay $60,000 and were ordered to restrict their market activities.

- Danny Francis Bilinski and Robert Pierre Lamblin created a culture of non-compliance and conflict of interest at their mutual fund dealer, Canadian Global Investment Corp. They did this by selling speculative, illiquid and highly risky securities, in which they held an interest, to conservative clients. After a lengthy hearing running between September 2000 and April 2001, the Commission panel found that Bilinski, Lamblin and two sales representatives failed to comply with the know your client, suitability and fair dealing rules, and contravened Commission orders. Further, Bilinski and Lamblin made illegal distributions, failed to deal properly with conflicts of interest and Bilinski was responsible for misrepresentations made in connection with one of the distributions. The Commission will determine what orders it will issue following a hearing in the fall of 2002.

- Three US discount brokers, Datek Online Holdings, Ameritrade Inc. and TD Waterhouse Investor Services (US) accepted client accounts from and conducted trading for Canadians without being registered in any Canadian province. They entered into settlements with Commission staff as part of the first ever co-coordinated settlement negotiated on behalf of all affected CSA jurisdictions at one time. They each paid $800,000, of which the BCSC received a total of $435,910 and agreed to apply for registration in the relevant Canadian jurisdictions. As part of the settlement, the regulators gave them exemptions so they could continue to deal with their existing clients for an interim period.

- A group of 17 investment dealers admitted to trading for clients in shares that were subject to a cease trading order. Under a settlement with Commission staff, they agreed to correct deficiencies in their internal control systems and paid $376,000 to the BCSC, of which $350,000 will be used to fund industry development of a new electronic system. The system will include an interface between the Commission's database and dealers so that all dealers will be alerted when securities are cease traded.

OFFENCES – CRIMINAL AND QUASI-CRIMINAL The commission follows cases involving persons found guilty of securities offences in the courts and takes additional action where appropriate. To protect our securities markets, the Commission and staff issued enforcement orders against Adamo Guerrini, Peter Hans Simon and Sybille Anita Simon, and Carl L. Lazzell. Narvin Wray Edwardson agreed to a temporary enforcement order when he was charged with securities offences.

FILING OF INSIDER REPORTS The Commission has repeatedly stressed the importance to the market of timely disclosure of trading by management. However, we continue to find management of junior public companies not complying with their obligations. Since our last annual report, the Commission and staff issued five enforcement orders against Kenneth Murray Keating, Murray Tildesley, Brian Jonathan Ellis, Frederick George Orr and Andrew Rutherford Prowse.

CONCLUSION Presently, Commission staff have outstanding 18 notices of hearing. Eight were issued with temporary enforcement orders.

Under the notices of hearing, 81 persons are alleged to have contravened the securities legislation. The 43 persons who are subject to the temporary enforcement orders are restricted in their activities under the securities legislation until a hearing is held. We expect these hearings will be held over the next year.

The notices and temporary orders are public documents and may be viewed on our website at www.bcsc.bc.ca.

(financial statements)

MANAGEMENT DISCUSSION AND ANALYSIS

(management discussion and analysis)

FINANCIAL REPORT, MARCH 31, 2002

OPERATIONS OVERVIEW

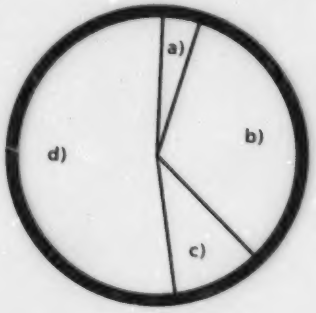
Revenue Our revenue comes from securities market participants. Fees constitute 90% of our total revenue (2001 – 88%). The remaining 10% (2001 – 12%) comes equally from investment income and enforcement revenue (administrative penalties, designated settlements, and cost recoveries).

Fees from securities distributions, registration, and financial statement filings have all grown. Mutual fund distribution filings growth has been the most significant – 120% over the past five years – due to the continued popularity of mutual fund investments.

Expenses Salaries and benefits account for 71% of our operating expenses (2001 – 69%). We averaged 208 full-time staff during the year (2001 – 206). We compete for professional staff with law firms, accounting firms, the securities industry and other regulators. Our salaries are competitive with those groups. Compensation includes a performance-based incentive program available to all staff.

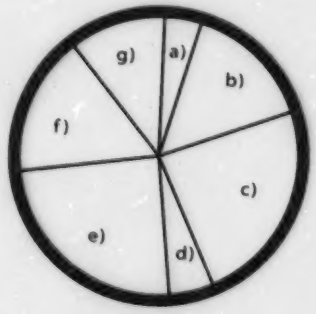
We control our expenses by conducting comparative salary surveys, reviewing our costs compared to budget on a monthly basis, and requiring senior management approval of all expenses greater than $5,000.

2002 FEE REVENUE



a) Exemptions and other	4%
b) Registrations	29%
c) Financial statements	14%
d) Distributions	53%

2002 SALARY AND BENEFIT EXPENSES



a) Deregulation	4%
b) Adjudication	18%
c) Enforcement	24%
d) Industry and investor education	3%
e) Public company disclosure	24%
f) Exemptions and rules	14%
g) Dealer and SRO oversight	13%

FINANCIAL SUMMARY

Sustained growth in filings activity since our incorporation in 1995 resulted in large annual surpluses. Industry suggested that our surplus revenue should be used to improve service levels, and to reduce fees. We have done both since 2000.

SUMMARY OF RESULTS

	2002	2001	2000
REVENUE			
Fees	$ 24,080,449	$ 27,928,241	$ 24,573,455
Other	2,735,666	3,900,237	2,757,496
	26,816,115	31,828,478	27,330,951
EXPENSE			
Salaries and benefits	18,869,473	16,366,256	13,354,169
Other	7,561,621	7,392,210	6,450,594
	26,431,094	23,758,466	19,804,763
SURPLUS	$ 385,021	$ 8,070,012	$ 7,526,188

REVENUE

Fees Fee revenue declined during the fiscal year because we reduced our filing fees. In January 2001, we permanently decreased or eliminated 14 fees to reduce revenue to our break-even point. In January 2002, we implemented temporary fee reductions to registration, prospectus and financial statement filing fees to return approximately $12.2 million of our accumulated general surplus to market participants. These fee reductions reduced current year revenue by $3.7 million.

Enforcement Revenue and Cost Recoveries We collect administrative penalties for breaches of the *Securities Act*. The Act requires that this revenue must be used only to promote knowledge of the legal, regulatory, and ethical standards that govern British Columbia's securities market. We also negotiate settlement amounts that are in excess of our investigation costs. We appropriate these receipts to, and draw expenditures from, our education reserve.

During the year we appropriated $1 million (2001 - $1.9 million) to the education reserve and spent $304,000 (2001 - $282,000). The education reserve balance is now $3.9 million (2001 - $3.2 million). We plan to increase education expenditures over the coming years to reduce or eliminate further increases in the education reserve balance.

We also recover a portion of our enforcement investigation costs. Enforcement revenue and cost recoveries are unpredictable, as they depend on the nature and timing of enforcement actions completed during the year, as well as on our ability to collect assessed amounts.

Collecting enforcement revenue is difficult because the persons against whom we assess penalties and costs often have poor credit or are not in British Columbia. Due to the uncertainty of collecting assessed amounts, we recognize this as revenue on a cash basis. We collected 50% of the amounts assessed for the year (2001 – 67%). Individually significant receipts during the year were:

+ $376,000 from 19 securities firms who traded shares of companies when trading of these shares was suspended in British Columbia. We plan to contribute most of these funds to help develop a national compliance system for cease trade orders.

+ $582,000 from three foreign securities firms that offered trading services in British Columbia without being registered as dealers.

Investment Income Investment income fell 25% to $1.4 million (2001 – $1.9 million) because both our cash balance and interest rates declined from the previous year. Cash has declined because we are returning the majority of our general surplus to industry through fee reductions.

Our portfolio generates modest returns because we invest conservatively.

EXPENSES

Expenses increased 11% to $26.4 million (2001 – $23.8 million) due primarily to the following:

+ Salary and benefit costs increased 15% to $18.9 million (2001 – $16.4 million) because:
  - organizational changes resulted in one-time severance costs of $1.1 million for 21 employees (2001 – $200,000 for 5 employees);
  - there were no inflation adjusted increases to salary ranges during the year, however, employees received average merit increases of 4% ($600,000);
  - we filled vacancies and reclassified some staff positions ($500,000).
+ Professional services increased 52% to $1.8 million (2001 – $1.2 million). We contributed more to CSA project costs, undertook plain language training of our staff, spent more on employee security, and increased our use of external legal counsel due to the nature of the cases being investigated.
+ Information technology costs decreased 50% to $350,000 (2001 – $707,000). The prior year included a $220,000 contribution towards development of a national electronic insider reporting system, and we reduced system development costs by hiring additional salaried staff to do work previously done by consultants.

We contributed about $480,000 to CSA activities during the year (2001 – $411,000) and expect to contribute about $530,000 in fiscal 2003.

ACTUAL RESULTS COMPARED TO BUDGET

2002 Revenue is under budget primarily because we hadn't planned our January 2002 temporary fee reductions when we set the 2002 budget. Expenses are also under budget primarily because we deferred $500,000 of education reserve expenditures while we finalize our strategic plan for the reserve.

Capital additions are over budget because higher office construction costs were only partially offset by lower information technology equipment replacements.

2002 ACTUAL VS. BUDGET

2002	ACTUAL	BUDGET	VARIANCE
Revenue	$ 26,831,469	$ 27,531,541	$ (700,072)
Expense	26,431,095	27,165,778	734,683
Capital	1,503,891	1,434,313	(69,578)

2001 and 2000 Revenue in 2001 and 2000 was over budget because of strong distribution fee growth and higher one-time enforcement receipts, and the resulting higher investment income.

Expenses in 2001 were under budget because staff vacancies, lower use of external legal and consulting services and cheaper telecommunication rates were only partially offset by higher information technology costs and unplanned education spending. Expenses in 2000 were under budget because of staff vacancies, and lower use of external legal and consulting services. However, due to accelerated capital expenses, depreciation was higher than planned.

Capital purchases were under budget in 2001 and over budget in 2000 because we purchased some equipment for an information technology project sooner than originally planned.

2001 ACTUAL VS. BUDGET

2001	ACTUAL	BUDGET	VARIANCE
Revenue	$ 31,828,478	$ 25,234,004	$ 6,594,474
Expense	23,758,466	24,332,399	573,933
Capital	6,444,208	6,856,000	411,792

2000 ACTUAL VS. BUDGET

2000	ACTUAL	BUDGET	VARIANCE
Revenue	$ 27,330,952	$ 22,107,440	$ 5,223,512
Expense	19,804,762	21,236,997	1,432,235
Capital	1,381,212	772,000	(609,212)

CHANGES IN FINANCIAL POSITION

Liquidity and Capital Resources

In January 2001 we reduced our fees to break-even. We have adequate resources to fund future operations and have taken steps to safeguard our operations in the event of unforeseen revenue declines. To ensure continuity of our operations, we have appropriated $12.0 million of our general surplus to a fee stabilization reserve.

Cash and short-term investments have dropped to $14.8 million this year and we anticipate they will decline to approximately $3 million by March 31, 2004 due to our temporary fee reduction initiative, and because of a change in when we receive registration fees from salespeople.

Assets Net assets increased 1% to $30.2 million from $29.8 million in the prior year. The increase reflects the impact of a $677,000 surplus relating to education reserve activities and a $292,000 loss from Commission operations.

We prepare our statement of cash flows using the direct method. This method summarizes cash flows by source and use rather than through reconciliation to operations. Cash and short-term investments declined by 8% to $14.8 million (2001 – $16.1 million), reflecting cash flow from operations of $1 million (2001 – $10.0 million) before a $677,000 allocation to the education reserve (2001 – $1.6 million) and payments, including working capital changes, for capital assets totalling $1.7 million (2001 – $6.6 million).

During the year we purchased $1.5 million of capital assets. Information technology additions totalled $700,000, for hardware and software upgrades. Leasehold improvements, furniture, and equipment acquisitions totalling $800,000 related primarily to completing construction of our office premises.

Liabilities Long and short term deferred revenue decreased 24% to $3.7 million (2001 - $4.9 million) because we moved to one year registration periods (compared to two years previously) to harmonize with other provinces.

Accrued salaries increased 67% to $2.6 million (2001 - $1.6 million) because internal reorganizations increased severance accruals by $732,000, and incentive payment accruals increased by $277,000.

Accounts payable decreased 40% to $777,000 (2001 - $1.3 million) reflecting the timing of equipment acquisitions and lower year-end accruals.

OUTLOOK

We expect 2003 revenue will decline dramatically from 2002 primarily because of the impact of our temporary fee reductions.

We expect 2003 expenses to increase 3% from 2002 primarily because of the impact of our deregulation initiative. We have assigned twelve staff members to this project, and have hired contract staff to perform some of their regular duties during the project.

OUTLOOK FOR 2003

	2003 BUDGET	2002 ACTUAL	POS (NEG) VAR
Revenue	$ 20,752,500	$ 26,831,469	$ (6,078,969)
Expense	27,181,020	26,431,095	749,925
Capital	1,406,000	1,503,891	(97,891)

RISKS AND OPPORTUNITIES

Reliance on CDS Inc. Approximately 60% (2001 – 66%) of our fee revenue is collected through the SEDAR electronic filing and payment system run by CDS. CDS recovers the costs to operate SEDAR by charging filers user fees in addition to the fees collected on behalf of the BCSC and other members of the CSA, under an operating agreement that runs to December 2002. Should CDS become unable or unwilling to continue to operate SEDAR, the CSA would have to contract another party to undertake these tasks.

National Registration Database (NRD) CDS is developing a national electronic registration (NRD) system on behalf of the Ontario, Alberta and BC commissions and the Investment Dealers Association of Canada. The costs of developing NRD are in excess of the original budget. CDS has approached the CSA with proposals to address these increased costs. The CSA has not agreed to provide any contributions towards these increased costs, but is continuing discussions with CDS on ways to mitigate these costs.

We expect that CDS will complete development of and introduce NRD within a year. Should CDS become unable or unwilling to complete development of NRD, the CSA would have to contract another party or finance NRD costs internally.

National Insider Reporting System (SEDI) CDS developed and launched a national insider reporting system (SEDI) for the CSA on January 21, 2002. SEDI operations have been suspended since February 1, 2002 because of technical problems that slowed system response times to unacceptable levels. CDS is paying for system repairs. We do not expect that CDS's efforts to repair SEDI will expose us to any liability. However, should CDS become unable or unwilling to complete development of SEDI, the CSA would have to contract another party or finance SEDI costs internally.

Market Factors The majority of our revenue relates to the level of capital raising activities in British Columbia. We are most dependent on fee revenue from the sale of mutual funds (41% of total revenue). A further 6% of our fee revenue is generated from fees on other distributions in British Columbia. Revenue varies depending on the number and size of offerings completed each year and is lower during weak markets.

We expect growth in mutual fund distribution filings will continue, however at a slower rate than in the past. We expect little or no growth in most other areas for 2003.

(financial statements)

FOR THE YEAR ENDED MARCH 31,2002

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of the British Columbia Securities Commission is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

Management has prepared the financial statements according to accounting principles that are generally accepted in Canada.

Management develops and maintains systems of control that give the Commission reasonable assurance that management has:

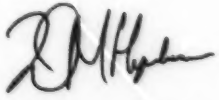
+ operated within its authorized limits,
+ safeguarded assets, and
+ kept complete and accurate financial records.

The commissioners are responsible for ensuring that management fulfills its financial reporting and control responsibilities, and have appointed an audit committee to oversee the financial reporting process. The majority of the committee members are part-time commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly with management, the internal auditors and the external auditors to review the:

+ financial statements,
+ adequacy of financial reporting, accounting systems and controls, and
+ internal and external audit functions.

The audit committee has reviewed these financial statements and has recommended the commissioners approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.



DOUGLAS M. HYNDMAN
Chair and Chief Executive Officer

STEVE WILSON
Executive Director

REPORT OF THE AUDITOR GENERAL OF BRITISH COLUMBIA

To the Commissioners of the British Columbia Securities Commission, and
To the Minister of Competition, Science and Enterprise, Province of British Columbia:

I have audited the balance sheet of the *British Columbia Securities Commission* as at March 31, 2002 and the statements of operations, of surpluses, and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Securities Commission* as at March 31, 2002 and the results of its operations, its surpluses, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

WAYNE STRELIOFF, CA
Auditor General

Victoria, British Columbia
April 19, 2002

BALANCE SHEET

British Columbia Securities Commission

AS AT MARCH 31	2002	2001
ASSETS		
Current assets:		
Cash and short term investments (note 4)	$ 14,804,604	$ 16,105,007
Accounts receivable (note 5)	268,361	275,529
Prepaid expenses and deposits	193,846	41,664
	15,266,811	16,422,200
Investments held for designated purposes (note 6)	15,918,642	15,241,487
Capital assets (note 7)	7,255,329	7,199,539
	$ 38,440,782	$ 38,863,226
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 777,316	$ 1,294,102
Accrued salaries	2,590,601	1,553,643
Deferred revenue	3,738,441	4,412,617
Employee leave liability (note 8)	932,941	1,030,751
	8,039,299	8,291,113
Deferred rent	215,280	237,550
Deferred revenue	—	533,381
	215,280	770,931
SURPLUSES		
Contributed (note 1)	1,415,018	1,415,018
General	12,852,543	13,144,677
Fee stabilization reserve (note 6a)	12,000,000	12,000,000
Education reserve (note 6b)	3,918,642	3,241,487
	30,186,203	29,801,182
	$38,440,782	$38,863,226

Note 13 describes a commitment and a contingent liability.

The accompanying notes are part of the financial statements.

Approved by the Commission:

DOUGLAS M. HYNDMAN
Chair

JOHN K. GRAF
Member

STATEMENT OF OPERATIONS

British Columbia Securities Commission

YEAR ENDED MARCH 31	2002	2001
REVENUES		
Fees		
Prospectus and other distributions	$ 12,697,382	$ 15,970,237
Financial filings	3,596,199	3,881,271
Registration	7,062,967	6,658,911
Exemptions and orders	705,627	1,245,412
Other	18,274	172,410
Administrative penalties and designated settlements (note 9)	828,064	1,756,670
Enforcement settlement and cost recoveries (note 9)	500,563	269,875
Investment income	1,407,039	1,873,692
	26,816,115	31,828,478
EXPENSES		
Salaries and benefits (notes 11 and 12)	18,869,473	16,366,256
Rent	1,663,408	1,464,916
Depreciation	1,448,101	1,396,304
Professional services	1,763,479	1,163,026
Administration	929,017	1,199,107
Information technology	350,353	707,111
External communications	300,836	395,232
Business travel	382,483	361,098
Staff training	265,812	309,781
Education reserve (note 6b)	304,000	281,750
Telecommunications	154,132	113,885
	26,431,094	23,758,466
EXCESS OF REVENUES OVER EXPENSES	$ 385,021	$ 8,070,012

The accompanying notes are part of the financial statements.

STATEMENT OF SURPLUSES

British Columbia Securities Commission

	CONTRIBUTED	GENERAL	FEE STABILIZATION RESERVE (NOTE 6A)	EDUCATION RESERVE (NOTE 6B)	TOTAL
Balance, March 31, 2000	$ 1,415,018	$ 6,673,224	$ 12,000,000	$ 1,642,928	$ 21,731,170
Excess of revenues over expenses of the year	—	8,070,012	—	—	8,070,012
Appropriation during the year	—	(1,598,559)	—	1,598,559	—
Balance, March 31, 2001	$ 1,415,018	$13,144,677	$ 12,000,000	$ 3,241,487	$ 29,801,182
Excess of revenues over expenses of the year	—	385,021	—	—	385,021
Appropriation during the year	—	(677,155)	—	677,155	—
Balance, March 31, 2002	$ 1,415,018	$ 12,852,543	$ 12,000,000	$ 3,918,642	$ 30,186,203

The accompanying notes are part of the financial statements.

STATEMENT OF CASH FLOWS

British Columbia Securities Commission

YEAR ENDED MARCH 31	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	$ 22,872,892	$ 26,660,166
Cash receipts from penalties and settlements	1,329,071	2,026,545
Cash paid to employees	(17,817,825)	(15,647,048)
Cash paid to suppliers and others	(6,765,356)	(4,946,807)
Investment income received	1,409,539	1,911,692
	1,028,321	10,004,548
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(1,651,569)	(6,648,899)
Net increase (decrease) in cash and cash equivalents	(623,248)	3,355,649
Cash and cash equivalents, beginning of year	31,346,494	27,990,845
Cash and cash equivalents, end of year	$ 30,723,246	$ 31,346,494
Represented by:		
Cash and short term investments	$ 14,804,604	$ 16,105,007
Investments held for designated purposes	15,918,642	15,241,487
	$ 30,723,246	$ 31,346,494

The accompanying notes are part of the financial statements.

1. NATURE OF OPERATIONS

The British Columbia Securities Commission is a Crown corporation created by the Province of British Columbia on April 1, 1995. We regulate the trading of securities and exchange contracts in BC. As a government agency, we pay only those taxes paid by the provincial government.

The BC government transferred assets and liabilities with a net value of $1,415,018 to us on April 1, 1995. This amount is our contributed surplus.

2. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements according to accounting principles that are generally accepted in Canada. The important accounting policies used are:

a) Short term and designated investments

Under BC law, we must invest any money that we receive, but do not immediately need, in an investment pool that the British Columbia Investment Management Corporation administers. We buy units in pooled investment funds that invest primarily in:

+ Canadian money market instruments maturing within 15 months, and
+ Canadian bonds issued or guaranteed by the government of Canada or a provincial government and maturing within 10 years.

Any earnings from our investments are reinvested in the same fund and add to the carrying value of the units we own. We value our short term investments and investments held for designated purposes at the lower of their carrying value or their market value.

b) Capital assets

We record our capital assets at cost. We depreciate them using the straight line method over their useful lives. We estimate the useful lives of our assets to be as follows:

+ information technology assets – three years
+ leasehold improvements – the length of the remaining lease term or the length of the estimated useful life of each improvement, whichever time is shorter
+ office furniture and equipment – ten years

c) Revenue

We recognize prospectus and other statutory filing fees when we receive the cash.

Registration fees are paid to us in advance. We recognize only the portion of fees that relate to the registration period falling in the fiscal year as revenue. We treat the balance as deferred revenue and recognize it as income in the next year.

We recognize administrative penalties, settlements, and recoveries of enforcement costs as revenue only when we receive payment since the collection of these amounts is uncertain (see note 9).

d) Use of estimates

Canadian generally accepted accounting principles require management to make estimates and assumptions for certain amounts disclosed in the financial statements.
In our financial statements management has estimated the:

+ portion of accounts receivable that we will actually receive,
+ useful lives of capital assets, and
+ value of the employee leave liability.

Actual results may differ from these estimates.

3. FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalent assets, accounts receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability, approximate their fair value because of their short maturity dates. Fair value is the amount that would be agreed upon by two unrelated parties to a transaction who have full knowledge of all relevant facts and who are under no obligation to act.

Short term investments and investments held for designated purposes are subject to credit risk and interest rate risk. Credit risk is the risk that investment values will fluctuate because debtors cannot pay. We believe this risk is low because most of our investments are in government securities. Interest rate risk is the risk that investment values will fluctuate because of changes in market interest rates. We mitigate this risk by investing primarily in short term bonds. Therefore, the fair value of short term investments and investments held for designated purposes is considered to be the market value (see notes 4 and 6).

4. SHORT TERM INVESTMENTS

As at March 31, 2002, our short term investments consist of 4.64 units of the Pooled Canadian Money Market Fund ST2 having a market value and a carrying value of $13,729,432, after an $8,346 write-down to market.

5. ACCOUNTS RECEIVABLE

Accounts receivable consists of:

	2002	2001
Canadian Securities Administrators	$ 138,034	$ 81,905
Registration fees	63,949	63,949
Interest	7,500	10,000
Pension contribution rebates	—	112,500
Employee advances and other	58,878	7,175
	$ 268,361	$ 275,529

6. INVESTMENTS HELD FOR DESIGNATED PURPOSES

	FEE STABILIZATION APPROPRIATION (a)	EDUCATION (b) SECTION 162	EDUCATION (b) APPROPRIATION	EDUCATION (b) TOTAL	TOTAL
Balance, March 31, 2000	$ 12,000,000	$ 235,720	$ 1,407,208	$ 1,642,928	$ 13,642,928
Additions	—	139,716	1,616,954	1,756,670	1,756,670
Investment income allocation	—	16,199	107,440	123,639	123,639
Disbursements	—	—	(281,750)	(281,750)	(281,750)
Balance, March 31, 2001	$ 12,000,000	$ 391,635	$ 2,849,852	$ 3,241,487	$ 15,241,487
Additions	—	136,575	691,489	828,064	828,064
Investment income allocation	—	18,818	134,273	153,091	153,091
Disbursements	—	—	(304,000)	(304,000)	(304,000)
Balance, March 31, 2002	$ 12,000,000	$ 547,028	$ 3,371,614	$ 3,918,642	$ 15,918,642

Investments held for designated purposes consist of:

+ 4.14 units of the Short Term Bond Fund having a market value and a carrying value of $6,291,813, after a $70,932 write-down to market, and
+ 3.26 units of the Pooled Canadian Money Market Fund ST2 having a market value and a carrying value of $9,626,829, after a $5,852 write-down to market.

a) Fee Stabilization Reserve

In 1999 and 2000, we appropriated portions of our general surplus to the fee stabilization reserve to ensure that, if our revenue were to drop in the future, we would not have to raise our fees immediately. We will draw upon the fee stabilization reserve if our fee revenues fall below our spending needs.

b) Education Reserve

We collect administrative penalties under section 162 of the *Securities Act*. We also negotiate settlement amounts that exceed the costs of our investigations. We appropriate both of these amounts from our general surplus to the education reserve. Education reserve funds may only be spent to promote BC participants' knowledge of the legal, regulatory, and ethical standards that govern the BC securities market. We mix education reserve funds with our other funds for investment purposes, so we allocate a portion of our investment income to the education reserve.

7. CAPITAL ASSETS

Capital assets consist of:

	2002			2001
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Leasehold improvements	$ 4,274,577	$ 476,302	$ 3,798,275	$ 3,672,334
Office furniture	1,896,254	229,030	1,667,224	1,647,906
Office equipment	629,510	182,873	446,637	433,811
Information technology assets	3,276,362	1,933,169	1,343,193	1,445,488
	$ 10,076,703	$ 2,821,374	$ 7,255,329	$ 7,199,539

8. EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

9. ENFORCEMENT REVENUE

Due to collection uncertainty, we have not recognized revenue from administrative penalties, settlements, and enforcement cost recoveries until we received payment. Therefore, enforcement revenue includes the collection of penalties, settlements, and recoverable costs assessed in both the current and prior years.

During the year, administrative penalties, settlements, and enforcement cost recoveries of $1,145,013 (2001 – $804,344) were not recognized as revenue because we did not receive payment. We keep records of all penalties, settlements, and recoverable costs for collection purposes.

10. RELATED PARTY TRANSACTIONS

We are related through common ownership to all provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

11. POST-RETIREMENT EMPLOYEE BENEFITS

We, and all eligible employees, contribute to the Public Service Pension Plan, a multi-employer defined benefit pension plan. The British Columbia Pension Corporation administers this plan and pays pension and other benefits on behalf of employers. We recognize our annual contribution to the pension plan as our cost for employee future benefits.

Commencing on January 1, 2001, trustees of plan members and employers manage the plan jointly. Plan members and employers now share the risks and rewards of any unfunded liability or surplus.

An actuarial valuation of the assets and liabilities of the pension plan's basic account made at March 31, 1999, indicated there was a surplus. As a result, until March 31, 2001, employer contributions were rebated and reduced our salaries and benefits expense (2001 – $474,913). On April 1, 2001, contribution rebates to employers were eliminated, in favour of a 2.5% reduction in future employer contribution rates.

12. DEREGULATION EXPENSES

On October 1, 2001, we started a project intended to reform securities regulation and impose the minimum burden necessary for investor protection and market integrity. We have assigned 12 staff, including one Commissioner, to rewrite British Columbia securities legislation and policies, by December 31, 2003.

Project costs are included in operating expenses and total:

	2002	2001
Salaries and benefits	$ 593,826	$ —
Administration	25,372	—
External communications	8,769	—
Business travel	26,462	—
Staff training	3,705	—
Telecommunications	1,046	—
	$ 659,180	$ —

13. COMMITMENT AND CONTINGENT LIABILITY

(a) Office lease

We have leased office space to November 2011. Our annual rent is approximately $800,000 until November 2006, and $975,000 after that date. We also pay our share of building operating and maintenance costs.

(b) Mutual Fund Dealers Association of Canada

The mutual fund industry formed the Mutual Fund Dealers Association of Canada as a self-regulatory organization. Together with the Ontario Securities Commission and the Alberta Securities Commission, we guaranteed the Association's credit line with a Canadian bank. The maximum obligation of the three commissions under the guarantee is $12 million. Our portion of the guarantee is capped at 21% of the credit line outstanding, which was $8,913,000 on March 31, 2002.

(about the BCSC)

BCSC STATISTICS AT A GLANCE

	2002	2001
Registrants	21,457	20,992
Active Reporting Issuers	6,202	6,207
Exemption Applications	941	1,333
Mutual Fund Prospectus Filings	2,475	2,408
Prospectus Filings (Non-Mutual Fund)	514	569
Initial Public Offerings *	100	163
Cease Trading Orders (Reporting Issuers)	353	136
Continuous Disclosure Reviews	148	66
Annual Information Forms Filed	486	595
Material Change Reports	8,155	8,162
Insider Reports Filed	59,407	65,470

* These figures include Capital Pool IPOs: 15 in 2002; 86 in 2001.

GLOSSARY

CDNX Canadian Venture Exchange

CONTINUOUS DISCLOSURE The legally required public disclosure by issuers of their financial statements and news releases.

CSA Canadian Securities Administrators: an association of the securities administrators of each Canadian province and territory.

IDA Investment Dealers Association of Canada: the main securities industry trade association and self regulatory organization.

INSIDER DISCLOSURE The legally required public disclosure by insiders of their securities transactions.

ISSUER A company or other entity that has issued or is proposing to issue securities.

MD&A Management Discussion and Analysis: the section of a quarterly or annual financial report in which the issuer's management makes comments concerning its financial results.

MFDA Mutual Fund Dealers Association of Canada: the self regulatory organization for firms that specialize in distributing mutual funds.

NEAT New Economy and Adoption of Technologies group: a group of staff from various divisions of the BCSC and selected industry advisors. The goals are to open the channels of communication with companies in the new economy.

NRD National Registration Database: a proposed electronic filing system for registration applications and information.

REGISTRANT A company or individual that is registered under a provision of the *Securities Act* to trade or advise in securities.

REPORTING ISSUER An issuer that has offered securities to the public or listed its shares on an exchange. These issuers, often called "public companies," are subject to the Continuous Disclosure requirements of securities laws.

RS Market Regulation Services Inc.: the self regulatory organization that oversees trading on exchanges and other markets.

SEDAR System for Electronic Document Analysis and Retrieval: the national electronic filing system for disclosure by public companies and mutual funds.

SEDI System for Electronic Disclosure by Insiders: a proposed electronic system for filing insider reports.

SRO Self-regulatory organization

TSX Toronto Stock Exchange

TSX VENTURE EXCHANGE The national junior equity exchange (formerly CDNX), now a subsidiary of TSX Group.

(special thanks)

Many people contribute their time and effort to help us serve the public interest. We would like to extend special thanks to the following individuals for their assistance and counsel.

SECURITIES LAW ADVISORY COMMITTEE (SLAC) SLAC advises the Commission on legal and policy issues relating to securities regulation. It provides an important link between the Commission and the securities bar for consultation on emerging or important issues. SLAC has 10 members, of whom nine serve for terms of three years on a staggered basis. The 10th member is the current vice chair of the Securities Law Sub-section of the Canadian Bar Association's British Columbia Branch.

NEIL DE GELDER*
Borden Ladner Gervais LLP

MARTIN L. MACLACHLAN*
Miller Thomson LLP

PAUL L. GOLDMAN
Goodmans

JONATHAN S. DRANCE
Stikeman Elliott

DALE RONDEAU
Thomas, Rondeau

NANCY GLAISTER**
Cawkell Brodie

MARION V. SHAW**
Bull, Housser & Tupper

DAVID J. SMITH*
Lawson Lundell Lawson & McIntosh

VICTOR J. O'CONNOR*
McCullough O'Connor Irwin

J. DOUGLAS SEPPALA
McCullough O'Connor Irwin, Solicitors

PAUL VISOSKY
Nexus Venture Capital Lawyers

CHARLOTTE A. OLSEN
Lang Michener

AGORDON R. CHAMBERS**
Lawson Lundell

JEFFREY A. READ*
Fraser Milner Casgrain LLP

* Retired in March 31, 2002. ** Appointments effective April 1, 2002.

SECURITIES POLICY ADVISORY COMMITTEE (SPAC) SPAC represents a cross-section of market participants and provides the Commission independent advice on administrative, regulatory and legislative matters relating to trading in securities and to the securities industry. SPAC may have up to 12 members. The members of SPAC are appointed by the Minister of Competition, Science and Technology and serve for terms of up to three years. A member of SPAC may be reappointed, but may generally only serve for a maximum of six years.

MICHAEL GOLDBERG, DEAN*
University of BC

PAUL L. GOLDMAN*
Goodmans

CECILIA WONG
Leith Wheeler Investment Counsel Ltd.

JAMES L. HEPPELL
Catalyst Corporate Finance Lawyers

R. MICHAEL JONES
Platinum Group Metals Ltd.

STEWART L. LOCKWOOD
Vector Corporate Finance Lawyers

VICTOR J. O'CONNOR**
McCullough O'Connor Irwin

BROOKE CAMPBELL**
Odlum Brown Limited

JOHN WEBSTER*
PricewaterhouseCoopers LLP

DR. AVTAR DHILLON*
MDS Ventures Pacific Inc.

JOHN T. EYMANN
Pacific International Securities Inc.

JILL D. LEVERSAGE
TD Securities Inc.

VALERIE J. MACLEAN
Better Business Bureau of Mainland BC

S.R. (BOB) MUNROE, C.A., RFP
FPC Investments Inc.

PHILIP DOWAD, C.A. **
KPMG

BRENDA IRWIN **
Business Development Bank of Canada

*Retired in 2001-2002. **Appointments effective 2002.

TECHNICAL FORUM OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BC A body of the Institute of Chartered Accountants of BC, the Forum offers an opportunity for practicing members serving publicly traded companies to discuss with representatives of the responsible regulators, concerns affecting members providing such services. It also provides a venue for the regulators to discuss future policy directions and their possible impact on public companies and their auditors.

DENNIS BETTIOL
CA, Ernst & Young LLP

LEN BOGGIO
CA, Pricewaterhouse Coopers LLP

MATT BOOTLE
CA, TSX Venture Exchange

WILLIAM DAVIDSON
CA, Davidson & Company

DON DE JERSEY
CA, BDO Dunwoody LLP

PETER DE VISSER
CA, De Visser & Company

PHILIP DOWAD
CA, KPMG LLP

RICK A.S. HENSHAW
CA, Smythe Ratcliffe

ROBERT KANG
CA, TSX Venture Exchange

DAVID KONG
CA, Ellis Foster

KELVIN LUM
CA, Deloitte & Touche LLP

TERRENCE NEILL
CA, Deloitte & Touche LLP

LARRY OKADA
CA, Staley, Okada, Chandler & Scott

JACQUELINE TUCKER
CA, J.M. Tucker Inc.

MARK ZASTRE
CA, Grant Thornton LLP

STAFF ACKNOWLEDGMENT

We would like to recognize our staff for their contributions of time or money to the following community projects:

The Provincial Employees Community Services Fund
BC Women's Hospital
The Food Bank
Plan International (Foster Parent Program)
The Vancouver Sun Run

CONTACT INFORMATION

For information about the BCSC, brochures on important topics or for information on securities regulation in BC, visit or contact us at:

British Columbia Securities Commission
PO Box 10142, Pacific Centre
Suite 1200 - 701 West Georgia Street
Vancouver, BC V7Y 1L2

Phone: 604.899.6500
Fax: 604.899.6506

OUTSIDE THE GREATER VANCOUVER AREA:
Phone: 1.800.373.6393 (BC and AB only)
Email: inquiries@bcsc.bc.ca
Website: www.bcsc.bc.ca

SEARCH OUR WEBSITE DATABASES TO:
+ check an adviser's credentials
+ track insider trading reports
+ view exempt distribution information
+ see BCSC rules, policies and decisions

For information about public companies and mutual funds, contact our Inquiries Unit at 604.899.6864 or visit the SEDAR website at www.sedar.com

If you have any questions regarding your financial adviser or investment firm or if you would like to make a complaint, phone the Enforcement Division at 604.899.6600.